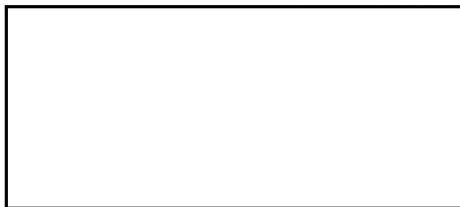


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1. VIET MINH REPORTED GAINING CONTROL OF HOA HAO FORCES

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The Viet Minh is beginning to show its hand in the area west of Saigon, and the situation there is becoming "urgent," according to President

Diem. He said that Viet Minh advisers are assuming command of the units of Hoa Hao dissident leader Ba Cut. The other principal Hoa Hao commander, Tran Van Soai, recently broke off surrender negotiations with the government, and Diem assumes that the Viet Minh is now gaining control of these forces.

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Comment

The Vietnamese national army has been forced to resume its campaign against the Hoa Hao rebels who were dispersed and greatly weakened last summer, but who have since regrouped. Their armed strength is believed to total approximately 2,500.

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the American army attaché in Saigon has noted that Ba Cut's forces have adopted the wartime guerrilla tactics of the Viet Minh.

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2. HUNGARY MAY AGREE TO YUGOSLAV FINANCIAL DEMANDS

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Hungary has accepted the Yugoslav position that \$120,000,000 of the total Yugoslav financial demands are not negotiable and has expressed willingness to begin immediate payments on this sum,

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Comment

Hungarian party leader Rakosi has taken the position that financial difficulties with Yugoslavia must be settled despite possible sacrifices by Hungary. Yugoslavia broke off financial talks on 24 September, because Hungary refused to agree to pay about \$100,000,000 for World War II reparations and \$20,000,000 for unfulfilled orders for capital goods. Hungarian willingness to meet Yugoslav demands would pave the way for the reopening of financial talks which would include negotiations on a second category of claims--alleged damages to the Yugoslav economy from loss of trade since the break in 1948.

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In an effort to conciliate Tito and to improve the atmosphere between the two countries prior to the resumption of financial talks, the Hungarian regime recently released Pal Justus, who was jailed with ex-interior minister Rajk in 1949 on charges of working for Yugoslav intelligence in Hungary.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 12 December)

[redacted] Israel's raid against Syrian artillery positions on the northeast shore of Lake Tiberias was the first major military action since 2 November. The recently organized Egyptian-Syrian joint military command has so far made no comment on the incident. Some face-saving action probably will be taken by the Arabs; aside from propaganda, it may consist of new terrorist activities.

Israeli spokesmen have stated that the attack was made to end Syrian interference with Israeli fishing vessels. While there has been a history of such interference, an equally important factor may have been the need to build up Israeli public morale, shaken by Egypt's arms deal with the Soviet bloc and by recent Israeli official statements regarding the country's rapidly diminishing military capabilities against the Arabs. In addition, Israel has been angered by Syria's refusal to release four Israeli prisoners held since December 1954. Israel may have used the raid to obtain more Syrian prisoners who can now be exchanged for Israelis. [redacted]

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